

**- AN EXECUTIVE SUMMARY -**

**GOOD AFTERNOON CHAIRMAN MITCHELL, MEMBERS OF THE CITY COUNCIL AND THE CITIZENS OF MEMPHIS. I WOULD LIKE TO WELCOME THOSE OF YOU WHO ARE JOINING US VIA THE INTERNET AND THE CITY OF MEMPHIS WEBSITE.**

**THIS PAST YEAR HAS BEEN A YEAR OF GREAT CHALLENGE FOR THE CITY OF MEMPHIS. SEVERAL TIMES DURING THE COURSE OF THE YEAR WE WERE FACED WITH WHAT APPEARED TO BE INSURMOUNTABLE CHALLENGES THAT THREATENED THE CITY'S FINANCIAL STABILITY AND FUTURE GROWTH, INCLUDING SIZEABLE BUDGET DEFICITS, DECREASED BOND RATINGS AND STAFF LAYOFFS. THESE CHALLENGES FORCED US TO LOOK BEYOND THE SUPERFICIAL IN ORDER TO GET A CLEARER UNDERSTANDING OF EXACTLY WHAT FACTORS HAD LED TO THESE CONDITIONS. AS WE EXPLORED THE EXTERNAL OPERATING ENVIRONMENT, HERE IS WHAT WE LEARNED:**

- OVER THE PAST 20 YEARS, THE CITY OF MEMPHIS HAS EXPERIENCED POPULATION DECLINES ALMOST IN DIRECT PROPORTION TO GAINS OF HIGH-INCOME HOUSEHOLDS IN THE SUBURBS. THUS, TAX REVENUES FOR THE CITY OF MEMPHIS HAVE DECLINED.**

- **A NUMBER OF COMPANIES HAVE EXPERIENCED LAYOFFS, DOWNSIZING OR CLOSURES; SO, UNEMPLOYMENT RATES ARE HIGHER. CONSEQUENTLY, THE TAXABLE EMPLOYEE BASE HAS DECLINED.**
- **THERE IS A DISPROPORTIONATE SHARE OF LOWER INCOME HOUSEHOLDS REMAINING IN MEMPHIS. THIS MEANS FEWER TAX DOLLARS ARE COLLECTED FROM CITIZENS WHO WORK ON LOWER PAYING MINIMUM-WAGE JOBS.**
- **A NUMBER OF RETAIL BUSINESSES HAVE FOLLOWED THE EXODUS OF HIGH-INCOME HOUSEHOLDS TO THE SUBURBS, IMPACTING THE CITY'S ABILITY TO IMPROVE OR GROW REVENUE BASED ON PROPERTY AND SALES TAXES.**

**AND WHILE TAX REVENUES HAVE DECLINED, OUR EXPENSES AND SERVICE LEVELS HAVE NOT. SO, IT'S CLEAR TO SEE HOW THE CITY CAN EXPERIENCE A DEFICIT GIVEN THESE CONDITIONS. WE MUST ALIGN CITY GOVERNMENT WITH THE CURRENT REALITIES OF THE MARKETPLACE.**

**ACCORDING TO SUSAN TAYLOR, EDITOR OF ESSENCE MAGAZINE,**

***"In every crisis there is a message. Crises are nature's way of forcing change - breaking down old structures, shaking loose negative; so something new and better can take place."***

**AS WE BEGAN TO EXPLORE CORRECTIVE ACTIONS NECESSARY TO AVOID FURTHER EROSION OF THE CITY'S RESERVE AND PREVENT ESCALATIONS OF A**

**VERY SERIOUS SITUATION, WE REALIZED WE COULD NOT CUT, BORROW OR TAX OUR WAY OUT OF THIS DILEMMA. CONSEQUENTLY, WE IDENTIFIED SOME IMPORTANT GOALS NECESSARY TO RESTORE THE CITY'S FISCAL AND ECONOMIC HEALTH:**

- CLOSE THE \$25 MILLION BUDGET GAP AND DELIVER A BALANCED BUDGET IN THE 06 AND 07 FISCAL YEARS.**
- RESTORE CASH RESERVES TO THE \$50 MILLION LEVEL.**
- IMPROVE OUR BOND RATING TO AA LEVEL.**
- DELIVER QUALITY CORE SERVICES AND PROGRAMS TO OUR CITIZENS.**
- DEVELOP BUSINESS PARTNERSHIPS WITH MEMPHIS TOMORROW TO ACTIVELY PARTICIPATE IN PROBLEM SOLVING (IE. ECONOMIC DEVELOPMENT GROWTH PLAN, EDUCATION/WORKFORCE DEVELOPMENT, CRIME AND GOVERNMENT EFFICIENCY.)**

**GOVERNMENT MUST BE RESPONSIVE AND RESPONSIBLE. WE MUST BALANCE THE GENERAL WELFARE OF THE CITY WITH A HEAVY DOSE OF FISCAL CONSERVATISM. THAT'S WHY WE ARE LOOKING AT COST SAVINGS/REDUCTIONS AND OPPORTUNITIES FOR CONSOLIDATION AND STREAMLINING DECISION-MAKING ACROSS ALL DEPARTMENTS. WE ALSO HAVE A SERIES OF OPTIONS, WHICH COULD GENERATE SIGNIFICANT**

**CASH OR SAVINGS, IF WE CHOOSE TO EXERCISE THEM. WE COULD IMPLEMENT A VOLUNTARY RETIREMENT OR STAFF BUY-OUT INCENTIVE PROGRAM, OR WE COULD IMPLEMENT OPPORTUNITIES FOR PURCHASING VIA STATE CONTRACTS. WE WILL TAKE A LOOK AT ALL CITY FACILITIES INCLUDING LIBRARIES, PARKS, COMMUNITY CENTERS, FIRE STATIONS, ASSESSING UTILIZATION AND NEED AND IDENTIFYING OPPORTUNITIES FOR CLOSURE, STRATEGIC REPOSITIONING OF ASSETS OR SALE OF NON-PERFORMING ASSETS.**

**FURTHER, WE BELIEVE THERE ARE TREMENDOUS COST REDUCTIONS ASSOCIATED WITH CONSOLIDATING/CENTRALIZING TECHNOLOGY FUNCTIONS. EVERY DIVISION USES TECHNOLOGY AND HAS A STAFF TO ENSURE JOB EFFICIENCY. HOWEVER, MANY OF THE SYSTEMS ARE DIFFERENT AND DON'T ALLOW CONTINUITY IN SOFTWARE AND HARDWARE ACROSS DIVISIONS. DECISIONS ABOUT TECHNOLOGY SHOULD BE CENTRALIZED IN ONE PLACE AND MANAGED BY A CORE STAFF THAT SUPPORTS EACH DIVISION. CENTRALIZATION OF TECHNOLOGY FUNCTIONS WILL ALLOW THE CITY TO GAIN TREMENDOUS EFFICIENCY OF OPERATIONS AND REALIZE SUBSTANTIAL ECONOMIES OF SCALE. THE SAME IS TRUE WITH RESPECT TO HUMAN RESOURCES, FINANCE, LEGAL AND CUSTOMER SERVICE/PUBLIC RELATIONS.**

**IN A REAL SENSE, THERE ARE THREE MAJOR AREAS THAT WILL HAVE SIGNIFICANT IMPACT ON OUR FISCAL RECOVERY: CAPITAL SPENDING, DEBT MANAGEMENT AND ASSET MANAGEMENT.**

***CAPITAL SPENDING***

**WE MUST GET THE LEVEL OF CAPITAL SPENDING UNDER CONTROL AND SELECT PROJECTS THAT FIT THE CURRENT REALITIES OF THE CITY'S BUDGET.**

***DEBT MANAGEMENT***

**A REALISTIC DEBT MANAGEMENT STRATEGY BASED ON NO NEW TAX INCREASES OVER THE NEXT TWO YEARS MUST BE DEVELOPED. AT THE SAME TIME, WE MUST ENSURE ADEQUATE RESERVES IN THE DEBT SERVICE FUND.**

***ASSET MANAGEMENT***

**WE MUST DEFINE AND CLARIFY THE SERVICE LEVELS NECESSARY TO PRESERVE AND IMPROVE ASSETS OVER THE NEXT FIVE TO TEN YEARS. WE MUST TAKE A COMPREHENSIVE LOOK AT OPERATIONS AND CAPITAL IMPROVEMENTS FOR ASSETS LIKE THE PYRAMID, FEDEXFORUM, COOK CONVENTION CENTER, COLISEUM, RIVERFRONT, COMMUNITY CENTERS, LIBRARIES AND FIRE STATIONS, ETC.**

**AND MOST IMPORTANTLY, THIS FISCAL MANAGEMENT STRATEGY MUST HAVE A STRONG SET OF CHECKS AND BALANCES TO QUICKLY IDENTIFY PROBLEMS AND ALLOW FOR APPROPRIATE CORRECTIONS.**

**ON BEHALF OF THE CITIZENS OF MEMPHIS, I AM PRESENTING AN OPERATING BUDGET OF \$505.6 MILLION AND A CAPITAL IMPROVEMENT PROGRAM BUDGET OF \$1.085 BILLION. THE CIP INCLUDES \$164.5 MILLION FOR FISCAL YEAR 2007 WITH APPROXIMATELY \$93.2 MILLION FUNDED BY GENERAL OBLIGATION BOND PROCEEDS. THIS DOES NOT INCLUDE ANY RECOMMENDATIONS OR UPSIDE THAT COULD RESULT FROM THE EFFICIENCY STUDY OR FROM INTERNAL STRATEGIC PLANNING COMMITTEES LOOKING AT ALL CRITICAL AREAS OF THE CITY.**

**I'D LIKE TO THANK THOSE ON MY STAFF WHO WORKED TIRELESSLY TO ANALYZE AND SYNTHESIZE INFORMATION AND DATA OVER THE PAST SIX MONTHS. I'D ALSO LIKE TO THANK THE MEMBERS OF THE MEMPHIS CITY COUNCIL FOR THEIR SUPPORT DURING THESE DIFFICULT FISCAL TIMES.**

**AS YOU KNOW, THE 2005/2006 FISCAL YEAR ENDED WITH A PROJECTED \$25 MILLION SHORTFALL, WHICH EFFECTIVELY DEPLETED THE CITY'S RESERVE FUNDS. THERE ARE TWO MAJOR WAYS TO EFFECTIVELY**

**MANAGE A DEFICIT; YOU CAN EITHER REDUCE COSTS OR GENERATE NEW REVENUE STREAMS. WE PLAN TO DO BOTH.**

**IN ORDER TO BALANCE THIS YEAR'S BUDGET, SEVERAL COST CUTTING INITIATIVES WERE IMPLEMENTED IMMEDIATELY.**

- TARGET EXPENDITURES SET BY THE FINANCE DIVISION WERE REDUCED FROM BUDGETED LEVELS.**
- SOLID WASTE FEES WERE INCREASED IN JULY 2005.**
- A HIRING FREEZE ON NON-CRITICAL POSITIONS WAS INITIATED.**
- RESTRICTIONS WERE PLACED ON THE USE OF OVERTIME.**
- A NEW STORM WATER DRAINAGE FEE WILL BE IMPLEMENTED IN MAY 2006.**
- THE RESTRUCTURING OF THE DEBT FOR THE CITY WAS COMPLETED AND THE RESULTING FUNDS WILL BE TRANSFERRED TO THE GENERAL FUND.**
- AND AS IT RELATES TO TAXES, THERE IS GOOD NEWS. REVENUES EXCEEDED BUDGET IN SALES & PROPERTY TAX COLLECTION.**

**WHILE THESE CHANGES ARE SIGNIFICANT, SOME OF THESE MEASURES ARE "QUICK WINS" OR "LOW-HANGING FRUIT." THEY SIMPLY PROVIDE SHORT-TERM**

**RELIEF. THE CITY'S SUCCESSFUL FISCAL RECOVERY WILL REQUIRE VIGILANCE, DECISIVENESS AND LONG-RANGE PLANNING AND ACCOUNTABILITY TO REDUCE COSTS, ELIMINATE REDUNDANCY, INCREASE EFFICIENCIES AND ACCELERATE THE REDUCTION IN PERSONNEL EXPENSES OVER THE NEXT FIVE YEARS.**

**WE HAVE ALREADY INITIATED PROCESSES IN THE PERSONNEL AREA TO MAKE THE CITY LEANER AND MORE EFFICIENT. IN ADDITION, WE HAVE PLACED A FREEZE ON NON-ESSENTIAL TRAVEL, RESTRICTED THE USE OF OVERTIME AND DELAYED MAINTENANCE OF NON-CRITICAL PUBLIC FACILITIES. HOWEVER, PERSONNEL ACCOUNTS FOR 75% OF COSTS, THUS A STRATEGIC REVIEW OF PERSONNEL EXPENSES IS VITALLY IMPORTANT.**

**PLEASE LET ME ASSURE YOU THAT WE DO NOT PLAN TO BALANCE THE BUDGET SOLELY ON THE BACKS OF OUR EMPLOYEES. WE STILL HAVE ESSENTIAL SERVICES THAT MUST BE DELIVERED IN A TIMELY AND EFFICIENT MANNER.**

**WE ARE WELL ON OUR WAY TOWARD A FISCAL RECOVERY. WE CONTINUE TO ANALYZE AND CHANGE WHEN NECESSARY, HOW WE DELIVER CORE SERVICES.**

**THE GOOD NEWS IS . . . OUR EFFORTS ARE PAYING OFF. WE ARE PROJECTING A \$20 MILLION BUDGET SURPLUS IN BOTH 2006 AND 2007.**

**THIS IS AN OUTSTANDING TESTAMENT TO OUR EFFORTS TO NOT ONLY BALANCE THIS YEAR'S BUDGET WITHOUT A PROPERTY TAX INCREASE AND WITHOUT DIPPING INTO RESERVE FUNDS, BUT ALSO TO GENERATE A SURPLUS TO PUT US BACK ON THE ROAD TO FISCAL HEALTH AND EXCELLENCE.**

**LADIES AND GENTLEMENT, I COULD NOT STAND HERE BEFORE YOU TODAY WITH SUCH POSITIVE NEWS WERE IT NOT FOR THE GALLIANT EFFORTS OF MY FINANCIAL TEAM. CFO ROBERT LIPSCOMB, DIRECTOR ROLAND MCELRATH AND THE STAFF OF THE FINANCE DIVISION ARE TO BE COMMENDED FOR THEIR OUTSTANDING EFFORTS. I ALSO WANT TO THANK CAO KEITH MCGEE, THE DIVISION DIRECTORS AND CITY EMPLOYEES FOR THEIR EFFORTS TO HELP US REACH THIS POINT TODAY.**

**LADIES AND GENTLEMEN, THIS IS A MOMENTOUS OCCASION. OUR RESOLVE TO BE EFFICIENT AND EFFECTIVE HAS NEVER BEEN MORE APPARENT. I PROUDLY PRESENT TO YOU ONE OF THE LEANEST, MOST FISCALLY PRUDENT BUDGETS OF MY TENURE AS MAYOR. THANK YOU FOR YOUR TIME AND ATTENTION.**